

PUBLIC INFRASTRUCTURE FINANCING REPORT



City of Morgan Hill

APRIL 2015

Purpose of Report

In Morgan Hill, consistent with other California cities, there is a need for additional public investment in streets, parks and landscape, and public building infrastructure. The City recognizes that ongoing revenues are insufficient to fund these vital community assets. The condition of the publicly owned infrastructure (especially streets) is deteriorating and the deferred maintenance backlog is increasing. Thus, the expense to repair these assets grows as each year passes without a sustainable solution.

In an effort to address this reality, the City Council has initiated the process of reviewing the feasibility of a *Municipal Finance Measure* for the November 2016 ballot to provide locally-approved and controlled funding for capital projects within Morgan Hill. The purpose of this report is to provide the City Council with a recommended process to implement that will ensure that the City is strategic in its effort, the Morgan Hill community is educated on the condition of its public infrastructure, community engagement is a priority, and various new revenue funding strategies will be tested.

Background

In support of the City Council's Annual Priority of Advocating for Infrastructure Improvement Funding, at its November 5, 2014 meeting, City Council accepted the *Infrastructure Funding Update Report* (attached) and began discussion on infrastructure funding gaps by category and prioritization of needs. In addition, staff posed four recommended next steps for Council consideration and direction. Those steps were:

- Discuss infrastructure funding gaps by category and prioritize the needs
- Discuss the policy questions posed in this report as well as others relevant to the issue
- Identify and discuss funding alternatives for the City to fund infrastructure maintenance
- Actively participate in state and regional infrastructure funding advocacy and planning.

Through the development of the *Infrastructure Funding Update Report*, it was determined that the City has an annual funding gap of approximately \$5.8 million for infrastructure maintenance to ensure sustainability for the aforementioned capital assets.

Current Needs
\$5.8m annually

- Street Maintenance
- Park Maintenance
- Landscape Assessment District
- Public Building infrastructure

Furthermore, the City Council adopted the following strategy during its Annual Goal Setting Workshop held the last weekend of January 2015:

By April 2015, the City Council will receive a comprehensive infrastructure action plan detailing the steps necessary for a potential 2016 ballot measure.

Getting Started

There are many factors that influence whether Morgan Hill will ultimately be successful in securing additional funding through a *Municipal Finance Measure*, including how our measure is crafted and the type of funding mechanism elected; the community benefits of the measure; whether our public is engaged in the process; the extent of media, opinion leader, and stakeholder support; whether our measure has opposition; the degree of our City's overall planning and financial investment during the early stages of preparation, and finally, the viability of the community campaign. Of vital importance is the public receiving assurance that any funds generated will be spent as promised on community priorities. Even though it would be inadvisable to select a financing strategy at this stage of the process, it is important to begin the conversation on the various options. These include, but are not limited to:

- *General Purpose Sales Tax*: Tax proceeds go into the City's general fund and are available for general government purposes (50% +1 approval required).
- *Special Purpose Sales Tax*: Tax is levied to fund a specific governmental project or program, or any tax in which the proceeds are not placed in the general fund and are not made available for general government purposes (2/3 voter approval).
- *Ad Valorem Tax*: The City could proceed with an ad valorem tax, and then issue general obligation bonds to fund the capital improvements. Each property owner would pay additional property tax variable based on assessed valuations (2/3 voter approval).
- *Parcel Tax*: The City could obtain voter approval for a parcel tax, and each property owner would pay the same amount. Bonds would be issued to fund the capital improvements (2/3 voter approval).
- *Special Districts: Community Facilities District, Benefit Assessment Districts, and other Proposition 218 Districts*

In any event, the specifics of a potential revenue measure could be determined through a comprehensive community process led by staff and a specialized consultant team.

Building Our Team

Preparing for, and passing a successful *Municipal Finance Measure* is a specialized craft that often requires the assistance of outside experts. One of the first steps in pursuing such a measure is to engage an experienced consulting firm to assist the City in outreach, conducting an independent community survey, and performing feasibility analysis. A successful measure generally requires sufficient timing for polling and community engagement, to ensure that any measure proposed reflects community input, priorities and interest. These outreach steps will help maintain the City's transparency in the process by actively involving residents, businesses, the Chamber of Commerce, Downtown Association, and other constituents.

It is anticipated that the City would need to hire the following consultants to assist the City in meeting its funding goal:

- Communications/Feasibility Strategist
 - Direct and project-manage all strategies focused towards a successful City sponsored Finance Measure feasibility effort from start to finish.
 - Develop and update the City's project timeline and benchmark dates.
 - Support, influence and over-see the development of our baseline survey and tracking poll.
 - Develop, refine, and target key messages and themes for our Finance Measure to the appropriate audiences.
 - Conceive and implement community outreach and education activities prior to our City Council's placement of the Measure on the ballot.
 - Recommend how to structure our Finance Measure include the funding mechanism, general or special purpose designation, and election timing as a result of public opinion polling.

- Public Opinion Research Firm
 - Conduct the City's baseline survey and tracking polls to assess the public's support of our Finance Measure.
 - Design our City's research instrument, specify the sampling of respondents, manage the interview process, and analyze the data, including identifying the demographics and attitudes of respondents towards a potential measure. Assessment of the overall direction and quality of life in the City.
 - Identify what the voters see as the major problems facing City residents.
 - Determine the extent of awareness of the City's financial situation for funding the public's infrastructure.
 - Ascertain the degree to which voters see a need for more funding to maintain and enhance services.
 - Rank community priorities to be addressed by a measure.
 - Evaluate support and/or opposition to a ballot measure.
 - Identify the funding mechanism most favorable to voters, and at what tax amount.
 - Assess the optimal election timing and the effect of other measures on our measure.

- Financial Advisor or Bond Underwriter (if applicable due to selected financing model)
 - Assess the financial, facilities and construction scheduling needs.
 - Determines all revenue sources available to support the City's needs.
 - Analyzes our funding plan.
 - Develops cash flows for capital projects,
 - Creates a multi-year financing plan.
 - Manages the sale and closing of the financing package.
 - Recommends time/sequencing of bond issuances.

Timing

A resolution placing such a measure on the ballot would be due to Santa Clara County on or about August 12, 2016, which is 88 days prior to the November 8, 2016 election. In order to meet this August 12 deadline, the item must go to Council and be approved no later than August 5, 2016. As previously discussed, there are multiple steps involved in a *Municipal Finance Measure*. The following list delineates the appropriate steps in the process which should be considered when planning our finance measure:

1. Initiate Planning Efforts
 - Identify all potential projects, costs and needs
 - Identify unique recent, local problems and opportunities
 - Identify factors that make our needs urgent for the community
 - Build consensus among stakeholders within the City
 - Allocate City funding to plan our Finance Measure
 - Retain appropriate expertise/advisors
2. Conduct Public Opinion Research to determine:
 - Level of tax threshold the public is willing to support
 - Type of funding mechanism our community is willing to support
 - Optimal election timing
 - Most effective balloting method
 - Project(s) that are community priorities or problematic
 - Effective themes/messages
 - Areas where the community needs more education and information
3. Assess Initial Baseline Feasibility
4. Implement Nonpartisan Outreach Program
5. Re-Assess Community Support
6. Public Assessment and Education

Prior to approving a specific action plan, staff highly recommends that a Communications/Feasibility Strategist as previously described is hired to assist the City in the appropriate course of action. As an example, the following table provides the Council a possible schedule for a 2016 *Municipal Finance Measure*:

	April – June 2015	July – Sept 2015	Oct – Dec 2015	Jan – Mar 2016	April – June 2016	July – Sept 2016	Oct – Dec 2016
Council Meeting: Present Public Infrastructure Financing Report	✓	✓					
Collect needs assessments identifying projects	✓						
Determine revenue vehicles to be considered and identify necessary thresholds for voter approval	✓						
Engage opinion research firm and begin discussing initial poll to inform decision making process	✓						
Pollster to develop draft survey		✓					
City signs-off on telephone survey and optional online survey and survey fields		✓					
Survey results tabulated and reporting developed		✓					
Meeting with City team and consultants to review survey and determine path		✓					
Presentation of survey results to City Council		✓					
Revenue vehicle(s) selected			✓				
Outreach targets defined, including community groups, leaders, home owners associations, large land owners, elected officials, etc.	✓						
Message points developed based on research		✓					
Outreach content developed such as unique internet contents, social media		✓	✓	✓	✓	✓	✓
Initial meetings with key influentials set			✓				
Demonstrating the need through all methods of communication	✓	✓	✓	✓	✓	✓	✓
Ballot language developed by City Attorney					✓		
City Council approves ballot measure					✓		
Ballot label developed by City Attorney and submitted to County					✓		
Ballot arguments developed						✓	
Tracking poll						✓	
Outreach meetings and presentations					✓	✓	
Educational outreach tools developed		✓	✓	✓	✓	✓	✓
Post election activities							✓

Fiscal and Resource Impact

The approximate cost for the consultant team and ballot measure expense is estimated to be \$250,000. The FY 2014-15 operating budget includes \$35,000 for a community survey, so the approximate net new General Fund cost that would be necessary in the FY 2015-16 budget is \$215,000.

In addition, it is estimated that hundreds of hours of Administrative Services, City Manager, City Attorney, Public Works, and Community Services staff time would be required. Because of this, a potential ballot measure would need to be an organizational priority.

Recommendation

Staff recommends that the City Council accepts the *Public Infrastructure Financing Report* and directs staff to initiate the process of reviewing the feasibility of attempting a *Municipal Finance Measure* for the November 2016 ballot to provide locally-approved and controlled funding for capital projects within Morgan Hill. As an initial step, staff would engage an experienced consulting firm to assist the City in outreach, conducting an independent community survey, and performing feasibility analysis. In addition, staff would continue to define and evaluate the legal framework for such a measure, the appropriate steps needed to execute such a measure, and the precise timing associated with each step in the process.

It is also recommended that the Council formally schedule June 17, 2015 as a *Public Infrastructure Financing* workshop from 5:30pm-7:00pm. As part of this, the Communications/Feasibility Strategist would be in attendance to guide the discussion.